

## SOCIO-CULTURAL FACTORS AND THEIR IMPACT ON THE PERFORMANCE OF MULTINATIONAL COMPANIES

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### Abstract

*The paper deals with the concepts of socio-cultural factors and performance of multinational companies. Multinational companies operate in different host countries around the world and have to deal with wide variety of economic, political, legal, socio-cultural and technological factors. One of the significant components of the business environment is a socio-cultural environment. A socio-cultural environment is a combination of social and cultural factors. Due to the strong interaction that exists between them, it is very difficult to assess their separate influence on the business operation of multinational companies. The socio-cultural factors are one of the main environmental factors that significantly affect the economic activity of multinational companies and their performance as well. Moreover, socio-cultural factors are beyond the control of foreign subsidiaries' managers. The purpose of this paper is to describe the influence of certain socio-cultural factors on the performance of foreign subsidiaries. On the basis of the obtained results, the contribution of the paper is reflected in the determination of key socio-cultural factors that multinational companies should take into consideration in order to evaluate the actual performance of foreign subsidiaries and their managers.*

**Key words:** *environmental factors; foreign subsidiaries, multinational companies; performance evaluation; socio-cultural factors;*

**JEL Classification:** *F23*

### I. INTRODUCTION

Society and culture have an impact on every aspect of the overseas business of multinational companies. Although society and culture are not directly included in business operations, they indirectly appear as key elements in shaping how the business is managed, from what goods are produced, and how and through what means they will be sold, to the establishment of managerial and operational patterns and the determination of the success or failure of foreign subsidiaries. Consequently, multinational companies should be aware of predominant attitudes, values, and beliefs in each host country where decided to expand their business activities. Differences in attitudes and values among management of a parent company and expatriate managers at the subsidiary level, on the one hand, and managers and employees in host countries, on the other, can contribute to serious functional problems (Ajami, Cool et al, 2006).

The socio-cultural environment is important for multinational companies. There are various socio-cultural factors that significantly affect the economic activity as well as the performance of multinational companies. The key socio-cultural factors that have a major impact on the operation of the multinational companies are (Trehan and Trehan, 2009):

1. Culture;
2. Language;
3. Religion;
4. Level of education;
5. Customer preferences;
6. The attitude of the society towards foreign goods and services.

Socio-cultural factors are beyond the control of the managers of a foreign subsidiary. Consequently, in order to evaluate the actual performance of its foreign subsidiary, a multinational company should anticipate the impact of all socio-cultural factors that are beyond the control of the subsidiary's managers. When assessing the managerial performance, on the other hand, a multinational company should disregard the impact of the socio-cultural factors that are beyond the control of the subsidiary's managers (Drury, 2012).

## 1.1. CULTURE

There are many definitions of culture. According to the definition by House, Javidan et al. (2001, p. 494), culture is defined as „shared motives values, beliefs, identities, and interpretations or meaning of significant events that result from common experiences of members of collectives and are transmitted across age generations“. In general, culture is considered as the accepted behaviors, customs, and values of a given society (Dlabay and Scott, 2011).

Many components can be considered as elements of culture. These elements arise and are related to the beliefs and behavior of people. From multinational companies' perspective, a culture of every foreign country through its elements affects their business activities. The main elements of culture that may have an impact on the operation of multinational companies are (Vasudeva, 2007):

1. Attitude and beliefs – In every host country, there are norms of behavior based on attitudes and beliefs that constitute a part of its culture. The attitudes and beliefs vary from country to country. Multinational companies face a different set of attitudes and beliefs of a culture in each foreign country separately, and it influences all aspects of human behavior, providing organization and directions to a society and its individuals. Identifying the difference in attitudes and beliefs among various countries helps the multinational managers more easily understand people's behavior;

2. Attitude toward time – It refers to people's behavior about punctuality, responses to business communication, responses to deadlines and the amount of time that they spent waiting for an appointment. For instance, Americans are known to be punctual and the phrase *time is money* exactly explains their attitude towards time. In contrast, people from other countries may show more flexibility towards time. Analogically, multinationals operating in various countries should take into consideration these differences in attitudes towards time;

3. Attitude toward work and leisure – There are differences in attitude towards work and leisure among various countries. In some countries, people work much more hours than is necessary to satisfy their basic needs of living. This attitude is indicative of their views towards wealth and material gains;

4. Attitude toward achievement – Cultural diversity in the general attitudes towards work is related to people's achievement motivation.

5) Attitude toward change – Multinational companies should anticipate a difference in attitudes toward change between separate countries. They should take into consideration some key cultural issues, such what aspects of a culture resist change, how the process of change takes place in different foreign countries, how the areas of resistance differ among them, and how long it takes time for implementing same change;

6) Attitude toward job – The importance of certain profession in country significantly determinate a number and quality of people who want and seek to join that profession. Consequently, if the business is considered as a prestigious occupation in some country, multinational companies will have at their disposal broader pool of local professionals.

The influence of culture on the operation of multinational companies is real and widespread. Multinational companies are affected by more than one culture at a time. Through their subsidiaries located in various countries, they are exposed to different national cultures. Consequently, a certain multinational company builds its corporate culture based on the cultural differences that exist among the countries where it operates. Therefore, it is very important for multinational companies to adapt their production, marketing, and sales activities depending on the culture of the given country. Culture in particular country directly, or indirectly, reflect on the achieved performance of multinational companies.

However, cultural differences among various national countries are often quite challenging for multinational managers. In order to carry out many managerial tasks successfully, it is very significant for them to acquire a cross-cultural proficiency. In addition to that, multinational managers should be also proficient in (Cavusgil, Knight et al, 2008):

- Communicating and cooperating with business partners in host countries;
- Cooperating with national institutions in host countries;
- Selecting appropriate distributors and partners in host countries;
- Connecting with customers in host countries;
- Negotiating international alliances;
- Developing products and services in host countries;
- Preparing relevant promotional and advertising materials for each host county separately.

On the basis of results obtained from various surveys, it can be concluded that successful multinational companies develop acceptance and understanding of cultural diversity among countries and learn how to take advantage of opportunities, and cope with disadvantages that arise from different national cultures (Early and Mosakowski, 2004).

**1.2. LANGUAGE**

The diversity of language among various foreign countries is a source of many challenges for multinational companies. Although there is a tendency of accepting the English language as a universal business language, the companies are aware that it also provokes resistance by locals in many of countries where they operate. Table 1 highlights the most common languages in the world.

Business communication is further complicated by the nonverbal components of the language. Nonverbal communication creates difficulties for multinational companies due of various meanings of its elements in the separate countries, such as eye contact, facial expressions, gestures, etc. (nonvocal elements of speaking) and pitch, volume, speaking rate, etc. (vocal elements of speaking) (Hargie, 2011).

**Table 1. The main languages of the world**

Rank	Language	Approximate number of speakers (in millions)	Number of countries
1	Mandarin Chinese	848	13
2	Spanish	406	31
3	English	335	101
4	Hindi	260	4
5	Arabic	223	59
6	Portuguese	202	11
7	Bengali	193	4
8	Russian	162	16
9	Japanese	122	3
10	Javanese	84.3	3

Source: author's elaboration according to S.T. Cavusgil, *Op. cit.*, p. 108;

From the perspective of the multinational company, it is very notable to have good knowledge of the local language. The lack of knowledge of a local language is reflected on the performance of foreign subsidiaries and their managers. The languages difficulties can be reduced by appointing expatriates on the top managerial positions in the local subsidiary or nationals that have good knowledge of parent company’s language and corporate culture.

The most common problem is that a large proportion of the parent company’s staff has limited or no knowledge of local language and that contributes the parent-subsiidiary communication to be reduced to subsidiary's staff who knows the parent’s language or to the translators. Consequently, the volume of information that parent company’s staff receives and processes are significantly decreased. This problem is significantly enhanced if several languages are spoken by the local workforce. The presence of more than one language in a given country is an indicator of diversity in its population. In some European countries, such as German, which employ a large number of guest workers, the language difficulties increase from the linguistic variety. In German, for instance, many companies employ guest workers from Turkey and Spain. Consequently, the periodic meetings with workers are held in German, Turkish and Spanish (Fatehi, 2008).

**1.3. RELIGION**

Religion is considered as “a socially shared set of beliefs, ideas, and actions that relate to a reality that cannot be verified empirically yet affects the course of natural and human events-a way of life woven around people’s ultimate concerns” (Hill, 2009, p. 519).

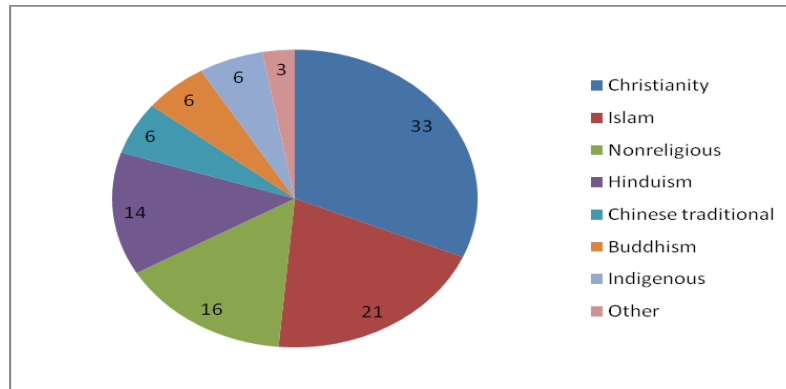
The largest religion groupings in the world are Christianity and Islam (see Fig. 2). Christianity numbers about 2.1 billion followers or approximately 33% of the world’s population. On another hand, Islam is considered as the world’s second most practiced religion with 1.3 billion followers or about 21% of the world’s population (Morrison, 2008).

In many countries around the world, religion plays a significant role in people's life. Religion even determines the way people think of work. Consequently, religion considerably affects on business activity and corporate culture. Many companies adapt their working process according to a predominant religion of a given country in terms of the holidays, working hours, food habits, a way of dressing, etc.

From the perspective of the multinational company, religion is an important social factor that should take in consideration when some company decides to operate in a given country. Religion, through its effects on people, affects a multinational company and its operations. Multinational companies, for instance, should be aware of religious holidays in each country where they operate. The most of the Islamic countries have

significantly lower productivity during the month of the Ramadan fast. Likewise, the pace of work in many Asian countries is slow down during the celebrations of the Chinese New Year. The situation is similar during the Easter holidays in many European countries as well (Parboteeah and Cullen, 2017).

In some countries, the followers of particular religions are required to dress or to maintain their physical appearance in a manner that is not appropriate to the company’s appearance norms. Also, multinational company’s products or ingredients used in manufacturing are forbidden in the certain country. For instance, multinational companies cannot produce or sell pork products because pork and all that is associated with it is rigorously forbidden according to Islam (Ajami and Goddard, 2014).



**Figure 2 - The world religions, as percentages of world population, 2005**

Source: author's elaboration according to J. Morrison, *Op. cit.*, p. 124;

Based on the foregoing, it can be concluded that an appropriate understanding and respecting of religions is extremely important for the efficient functioning of multinational companies.

**1.4. LEVEL OF EDUCATION**

Education significantly affects the lifestyle of a population of any country in the world, the way of their thinking, their attitude toward work, etc. The level of education varies among countries. However, in many countries, the level of education has a tendency to increase. Education level and level of literacy of population of a given country are indicators of the quality of their potential workforce.

Economic potential and progress of any country depend on the education of its population. Analogously, education has notably impact on international business. The most significant economic implications of education that are reflected on the operation of multinational companies are (Aswathappa, 2010):

1. Countries with a well-educated population attract high-wage industries. Every country that invests in education tends to create high-wage industries that are known as “brain power” industries;
2. The market potential of any country primarily depends on education. The counties rich in educational facilities, such Germany and England, are more likely to attract high-tech industries than the less educated countries such as Romania and Poland. The technology level of the company’s products may depend on the education level of the local population;
3. The level of education and the level of literacy of population in a given country considerable determine the way of marketing research, packaging and advertising conducted by multinational companies.

In a country where the level of education of local population is higher, it is considered that expectations from multinational companies are proportionally higher. Buyers with a higher level of education require more quality products and services, a better price-quality ratio (a better *VALUE-for-MONEY RATIO*) and know their right as customers. Also, well-educated local workforce requires better working conditions, more stable work, and greater opportunities for further improvement as the business environment changes.

**1.5. CUSTUMER PREFERENCES**

The needs and tastes of consumers in various countries are significantly becoming similar. According to some experts, this social trend is known as “global convergence”. As a result of the spread of global communication and facilitated travel opportunities, certain social behaviors are getting similar globally. Today, people around the world watch same movies, listen to the same music, play the same video games and use the same Internet websites. Consequently, the needs, tastes, and habits become identical on a global level. The global convergence is most present among the younger population. Therefore, many multinational companies

with global strategy offer same or very similar products in many various countries. As result, global market convergence is created whereby the world is considered as a global market of same products and services (Frynas and Mellahi, 2015).

At another hand, many experts claim that multinational companies should be very careful about the “global convergence” because there are still visible cultural and social differences between countries. Something that is liked by the people of one country does not mean that will be liked by those in some other country. Even if people like or use same or very similar products in various countries, they may use them for different reasons, on different occasions and under different circumstances in each country. Therefore, is very significant for multinational companies to modify their product and promotion strategies that will suit the preferences of the population of the different countries. The multinational company should implement strategies that will be appropriate for a given socio-cultural environment. This type of strategic approach *LEADS TO SUCCESSFUL BUSINESS* outcomes (Cherunilam, 2011).

### **1.6. THE ATTITUDE OF THE SOCIETY TOWARDS FOREIGN BUSINESS**

The social and government attitudes towards foreign business, especially towards foreign companies and their products, are one of the social factors that may have a significant impact on the performance of multinational companies. The social and governments attitudes of the particular country towards foreign companies and their products can range from complete acceptance and trust to complete distrust and antagonism.

Analogously, if the society of a given country is friendly towards foreign business, multinational companies will certainly benefit from a supportive local environment. On another hand, if social attitudes of a given country are antagonistic, the multinational companies may face difficulties, such as boycotts of their products. The antagonistic social attitude that companies may face in some foreign countries is often the result of their government's position towards some political issues (Shenkar, Luo et al, 2015).

The purpose of boycotts is to shout completely the companies out of the particular market. The most publicized boycott campaign ever was 50 years boycott run by Arab countries against the companies that were engaged in business activities with Israel (Gillespie and Hennessey, 2016).

## **II. CONCLUSION**

The main purpose of this paper was to understand the importance of socio-cultural factors’ influence on the performance of multinational companies.

Society and culture have an impact on every aspect of the overseas business of multinational companies. Analogously, the socio-cultural environment is significant for multinational companies. The key socio-cultural factors that have a major impact on the operation of the multinational companies are 1) culture; 2) language; 3) religion; 4) level of education, 5) customer preferences, and 6) the attitude of the society towards foreign goods and services.

The influence of culture on multinational companies is real and widespread. Multinational companies are affected by more than one culture at a time. Through their subsidiaries located in various countries, they are exposed to different national cultures. Culture in particular country directly, or indirectly, reflect on the achieved performance of multinational companies. On the basis of the results obtained from various surveys, it can be concluded that successful multinational companies develop acceptance and understanding of cultural differences among various country and learn how to take advantage of opportunities, and cope with disadvantages that arise from different national cultures.

Religion is an important social factor that should take in consideration when some company decides to operate in a given country. Religion, through its effects on people, affects a multinational company and its operations. Consequently, it can be concluded that an appropriate understanding and respecting of religion is extremely important for the efficient *FUNCTIONING* of multinational companies.

From the perspective of the multinational companies, it is very notable to have good knowledge of the local language. The lack of knowledge of a local language is reflected on the performance of foreign subsidiaries and their managers. Consequently, the languages difficulties can be reduced by appointing expatriates on the top managerial positions in the local subsidiary or nationals that have good knowledge of parent company’s language and corporate culture.

Education has notably impact on international business. In a country where the level of education of local population is higher, it is considered that expectations from multinational companies are proportionally higher. Buyers with a higher level of education require more quality products and services, a better price-quality ratio (a better *VALUE-for-MONEY RATIO*) and know their right as customers. Also, well-educated local workforce requires better working conditions, more stable work, and greater opportunities for further improvement as the business environment changes.

Even if people like or use same or very similar products in various countries, they may use them for different reasons, on different occasions and under different circumstances in each country. Therefore, it is very important for multinational companies to modify their product and promotion strategies that will suit the preferences of the population of different countries. The multinational company should implement strategies that will be appropriate for the given socio-cultural environment. This type of strategic approach *LEADS TO SUCCESSFUL BUSINESS* outcomes.

In summary, it can be concluded that it is very significant for multinational companies to anticipate the key socio-cultural factors in each host country separately in order to evaluate the actual performance of foreign subsidiaries and their managers.

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